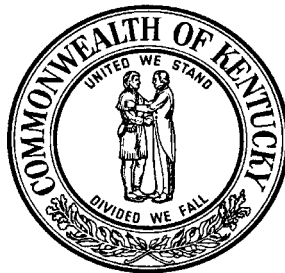


**REPORT OF THE AUDIT OF THE  
LAUREL COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**July 8, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
LAUREL COUNTY  
SHERIFF'S SETTLEMENT - 2004 TAXES**

**July 8, 2005**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Laurel County Sheriff as of July 8, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$13,963,402 for the districts for 2004 taxes, retaining commissions of \$527,675 to operate the Sheriff's office. The Sheriff distributed taxes of \$13,411,396 to the districts for 2004 Taxes. Taxes of \$6,311 are due to the districts from the Sheriff and refunds of \$628 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Settle 2004 Taxes
- The Sheriff Had A Deficit Of \$27,852 In His Official Account
- The Sheriff Should Require The Depository Institution To Pledge Additional Collateral Of \$1,293,552 And Enter Into A Written Agreement To Protect Deposits
- The Practice Of Cashing Checks From Office Funds Should Be Discontinued
- Franchise Taxes Should Be Paid To The Taxing Districts On A Monthly Basis
- Advertising Costs Should Be Paid To The County
- Interest Should Be Paid To The Schools On A Monthly Basis
- The Sheriff's Office Lacks An Adequate Segregation Of Duties

**Deposits:**

As of November 1, 2004, the Sheriff's deposits in the amount of \$1,293,552 were uninsured and unsecured.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2004 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS .....	8
COMMENTS AND RECOMMENDATIONS .....	13
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	19





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the Laurel County Sheriff's Settlement - 2004 Taxes as of July 8, 2005. This tax settlement is the responsibility of the Laurel County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Laurel County Sheriff's taxes charged, credited, and paid as of July 8, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Settle 2004 Taxes
- The Sheriff Had A Deficit Of \$27,852 In His Official Account
- The Sheriff Should Require The Depository Institution To Pledge Additional Collateral Of \$1,293,552 And Enter Into A Written Agreement To Protect Deposits
- The Practice Of Cashing Checks From Office Funds Should Be Discontinued
- Franchise Taxes Should Be Paid To The Taxing Districts On A Monthly Basis
- Advertising Costs Should Be Paid To The County
- Interest Should Be Paid To The Schools On A Monthly Basis
- The Sheriff's Office Lacks An Adequate Segregation Of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 30, 2006

LAUREL COUNTY  
GENE HOLLON, SHERIFF  
SHERIFF'S SETTLEMENT - 2004 TAXES

July 8, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,140,215	\$ 1,952,769	\$ 5,857,317	\$ 2,111,638
Tangible Personal Property	186,344	363,240	958,116	916,652
Intangible Personal Property				349,515
Fire Protection	1,687			
Increases Through Exonerations	3,395	5,857	17,452	6,963
Franchise Corporation	141,693	244,979	723,690	
Unmined Coal - 2004 Taxes	206	341	1,058	380
Oil and Gas Property Taxes	215	355	1,103	396
Penalties	11,561	19,930	59,312	22,873
Adjusted to Sheriff's Receipt	6	14	(69)	(14)
Gross Chargeable to Sheriff	<u>1,485,322</u>	<u>2,587,485</u>	<u>7,617,979</u>	<u>3,408,403</u>
<u>Credits</u>				
Exonerations	11,600	19,748	59,545	23,221
Discounts	17,745	31,102	91,057	47,749
Delinquents:				
Real Estate	54,822	93,055	281,252	101,050
Tangible Personal Property	1,863	3,631	9,576	8,847
Intangible Personal Property				2,549
Uncollected Franchise	<u>37,690</u>	<u>51,060</u>	<u>188,625</u>	
Total Credits	<u>123,720</u>	<u>198,596</u>	<u>630,055</u>	<u>183,416</u>
Taxes Collected	1,361,602	2,388,889	6,987,924	3,224,987
Less: Commissions (a)	<u>58,156</u>	<u>99,479</u>	<u>232,691</u>	<u>137,349</u>
Taxes Due	1,303,446	2,289,410	6,755,233	3,087,638
Taxes Paid	1,301,327	2,284,132	6,743,265	3,082,672
Refunds (Current and Prior Year)	<u>1,749</u>	<u>2,805</u>	<u>9,028</u>	<u>5,066</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 370</u>	<u>(b) \$ 2,473</u>	<u>(c) \$ 2,940</u>	<u>\$ (100)</u>

(a), (b), and (c) See Next Page

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY  
 GENE HOLLON, SHERIFF  
 SHERIFF'S SETTLEMENT - 2004 TAXES  
 July 8, 2005  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	6,902,449
3.34% on	\$	6,903,881
2.5% on	\$	84,043
1% on	\$	63,029

(b) Special Taxing Districts:

Library District	\$	1,633
Health District		897
Extension District		440
Soil Conservation District		31
Bush Fire District		(528)

Due Districts or (Refund Due Sheriff)	\$	<u>2,473</u>
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(c) School Districts:

Common School	\$	2,453
Graded School		<u>487</u>

Due Districts	\$	<u>2,940</u>
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LAUREL COUNTY  
NOTES TO FINANCIAL STATEMENT

July 8, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAUREL COUNTY  
NOTES TO THE FINANCIAL STATEMENT  
July 8, 2005  
(Continued)

2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 8, 2005, the Sheriff's deposits were covered by FDIC insurance or pledged securities but no properly executed collateral security agreement, and as of November 1, 2004, \$1,293,552 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured - \$1,293,552

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 15, 2004 through July 8, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 28, 2005 through July 8, 2005.

Note 4. Interest Income

The Laurel County Sheriff earned \$7,511 as interest income on 2004 taxes. As of July 8, 2005, the Sheriff was due refunds of \$246 from the common school and \$37 from the graded school for overpayment of interest to the school districts. In addition, the Sheriff owed \$1,744 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Laurel County Sheriff collected \$100,013 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Laurel County Sheriff collected \$2,908 of advertising costs and \$5,591 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office. As of July 8, 2005, the Sheriff owed \$2,908 in advertising costs to the county.

LAUREL COUNTY  
NOTES TO THE FINANCIAL STATEMENT  
July 8, 2005  
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing escrow account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys in his escrow account. According to KRS 393.090, effective through June 30, 2003, property is assumed abandoned after seven years after which time it is to be turned over to the Kentucky State Treasurer. After KRS 393.090 was amended effective June 24, 2003, property is presumed abandoned after three years, after which time it is to be turned over to the Kentucky State Treasurer in accordance with KRS 393.110.

In December of 2002 the Sheriff opened an escrow account for unrefundable duplicate payments and unexplained receipts relating to the 2001 tax collections. As of July 8, 2005, this escrow account had a balance of \$1,815 including interest.

The audit report for 2003 taxes reported that the Sheriff had \$736 in unrefundable duplicate payments and unexplained receipts which were to be escrowed. Auditors subsequently determined that this amount should have been \$1,363. Therefore, the Sheriff should deposit \$1,363 of unrefundable duplicate payments and unexplained receipts relating to 2003 taxes in an interest bearing escrow account. This property will be presumed abandoned after three years.

The Sheriff should report annually to the Treasury Department any unclaimed moneys in his escrow accounts.

LAUREL COUNTY  
 GENE HOLLON, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

July 8, 2005

Assets

Cash in Bank (All Tax Accounts)		\$	149,526
Deposits in Transit			681
Receivables:			
Overpayment of Taxes-			
State	\$	100	
Bush Fire District		528	
Overpayments of Interest-			
County School		246	
East Bernstadt School		37	
Refunds Due Sheriff Due to Exoneration/Refund Errors		965	1,876
			<hr/>
Total Assets			<hr/> 152,083

Liabilities

Paid Obligations-			
Outstanding Checks		133,337	
Other Taxing Districts-			
State		1,335	
County		724	
County School		3,886	
Library		591	
Health		408	
Extension		158	
Soil		41	
Refunds Due Taxpayers		3,134	
			<hr/>
Total Paid Obligations		\$	143,614

LAUREL COUNTY  
 GENE HOLLON, SHERIFF  
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
 July 8, 2005  
 (Continued)

Liabilities (Continued)

Unpaid Obligations-

Other Taxing Districts-

County	\$	370
County School		2,453
East Bernstadt School		487
Library		1,633
Health		897
Extension		440
Soil		31
Refunds Due Franchise Corporations		604
Tax Commissions Due Sheriff's Fee Account		23,581
Interest Due Sheriff's Fee Account		1,745
Amounts Due to 2003 Tax Account		993
Cold Check Fees Due To 2005 Fee Account		178
Advertising Fees Due County		<u>2,909</u>

Total Unpaid Obligations	\$	<u>36,321</u>
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Total Liabilities		<u>179,935</u>
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Total Fund Deficit as of July 8, 2005	\$	<u><u>(27,852)</u></u>
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## COMMENTS AND RECOMMENDATIONS



LAUREL COUNTY  
GENE HOLLON, SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of July 8, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Settle 2004 Taxes

Based on our audit of the 2004 taxes as of July 8, 2005, the Sheriff owes the following additional amounts to the taxing districts:

County	\$	370
Common School		2,453
Graded School		487
Library District		1,633
Health District		897
Extension District		440
Soil Conservation District		31

The following refunds are due to the Sheriff from the taxing districts:

State	\$	100
Bush Fire District		528

We recommend that the Sheriff settle 2004 taxes by paying the additional amounts due to the districts and obtaining refunds as necessary.

*Sheriff's Response: Understand and will comply.*

The Sheriff Had A Deficit Of \$27,852 In His Official Account

Based on our audit the Sheriff had a deficit in his 2004 tax account in the amount of \$27,852. This deficit was the result of undeposited receipts of \$27,811 and refund overpayments of \$41. The Sheriff was unaware of the missing tax monies until the state and county tax settlements were prepared. When he was informed of the missing tax monies, he made a personal deposit into his 2004 tax account for \$9,200 on July 18, 2005 and an additional personal deposit for \$17,000 on October 19, 2005, leaving a remaining deficit of \$1,652 in his official 2004 tax account. We recommend that the Sheriff deposit an additional \$1,652 from personal funds to eliminate the remainder of this deficit. We further recommend that all tax monies be deposited intact daily in the future.

*Sheriff's Response: When we discovered this, we added cameras and revised all of our methods. No money is left in the office and will deposit rest of money owed.*

*A case was opened and detectives and chief deputy started investigation. No one could be implicated in this. Cameras were installed and are recording area 24 hours a day. A checkout system was instigated so that no money or green sheets are left in office at night. Money and green sheets are put in lock bag and taken to bank and picked back up start of next business day. Only one key is made for bag. This key is kept by Tax Administrator. Check out of all employees are checked by Tax Office Supervisor.*

LAUREL COUNTY  
GENE HOLLON, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 8, 2005  
(Continued)

The Sheriff Should Require The Depository Institution To Pledge Additional Collateral Of \$1,293,552 And Enter Into A Written Agreement To Protect Deposits

On November 1, 2004, \$1,293,552 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: Have met with banks and will comply.*

The Practice Of Cashing Checks From Office Funds Should Be Discontinued

During the 2004 tax collection period, the Sheriff cashed a personal check in the amount of \$800 from the 2004 tax account. This check was rejected by the bank on December 1, 2004. While the check was subsequently collected and redeposited on January 5, 2005, per Technical Audit Bulletin #93-002, the cashing of personal checks from official funds when not related to the performance of an official duty shall be subject to report as an audit comment relating to the commingling of public and private funds prohibited by KRS 64.850. We recommend the practice of cashing personal checks from office funds be discontinued.

*Sheriff's Response: No personal checks will be cashed by any employee. Policy is in place.*

Franchise Taxes Should Be Paid To The Taxing Districts On A Monthly Basis

KRS 134.300 requires the Sheriff, by the tenth of each month, or more often if required by the county judge/executive to prevent the Sheriff from having funds in his possession in excess of the amount of his bond, to report under oath to the county judge/executive the amount of state and county taxes he has collected during the month preceding. The Sheriff did not prepare monthly franchise tax collections reports for all months of the tax collection period. Reports prepared for franchise tax collections included as many as four months. We recommend that the Sheriff report and pay franchise taxes to the taxing districts by the tenth of each month.

*Sheriff's Response: Have talked to Tax Clerk and will comply.*

LAUREL COUNTY  
GENE HOLLON, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of July 8, 2005  
(Continued)

Advertising Costs Should Be Paid To The County

The Sheriff collected a total of \$2,908 for advertising costs on the 2004 tax bills. KRS 134.440(2) states that any additional expenses incurred that must be paid before the sale of a tax claim or the settlement of an action by the state, county, or taxing district shall be paid by the county, and this sum shall be a preferred claim of the county on any proceeds eventually recovered. We verified with the county treasurer that the county paid for the advertising costs for delinquent tax bills.

*Sheriff's Response: Will comply. Was not aware of this.*

Interest Should Be Paid To The Schools On A Monthly Basis

Interest was not paid to the schools on a monthly basis. Payments were made in December, February and April only. KRS134.140(2)(b) states: "At the time of his monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes" We recommend that interest be paid to the schools on a monthly basis in accordance with this statute.

*Sheriff's Response: Talked to Tax Clerk and she will comply.*

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

The Sheriff's Office Lacks An Adequate Segregation Of Duties

The Sheriff's office lacks a proper segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the Sheriff has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily tax collection reports to the receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to the receipts and disbursements ledgers.

These reviews should be indicated with the Sheriff's initials.

*Sheriff's Response: Understand.*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Honorable Gene Hollon, Laurel County Sheriff  
Members of the Laurel County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Laurel County Sheriff's Settlement - 2004 Taxes as of July 8, 2005, and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's Settlement - 2004 Taxes as of July 8, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Settle 2004 Taxes
- The Sheriff Had A Deficit Of \$27,852 In His Official Account
- The Sheriff Should Require The Depository Institution To Pledge Additional Collateral Of \$1,293,552 And Enter Into A Written Agreement To Protect Deposits
- The Practice Of Cashing Checks From Office Funds Should Be Discontinued
- Franchise Taxes Should Be Paid To The Taxing Districts On A Monthly Basis
- Advertising Costs Should Be Paid To The County
- Interest Should Be Paid To The Schools On A Monthly Basis

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
June 30, 2006

